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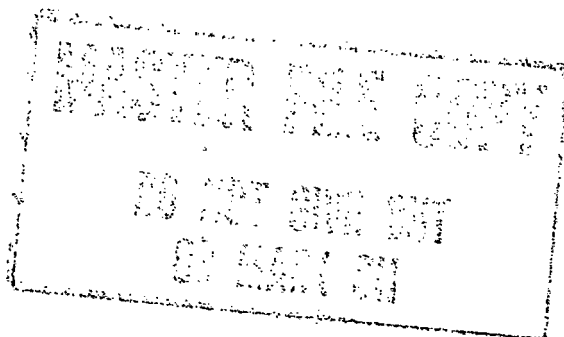
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Vietnam in Transition: Prospects for and Implications of Reform

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Special National Intelligence Estimate

*This Special National Intelligence Estimate represents
the views of the Director of Central Intelligence
with the advice and assistance of the
US Intelligence Community.*



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*Information available as of 28 July 1988 was used
in the preparation of this Special National Intelligence Estimate.*

*The following intelligence organizations participated
in the preparation of this Estimate:*

The Central Intelligence Agency
The Defense Intelligence Agency
The National Security Agency
The Bureau of Intelligence and Research,
Department of State
The Office of Intelligence Support,
Department of the Treasury

also participating:

The Deputy Chief of Staff for Intelligence,
Department of the Army
The Director of Naval Intelligence,
Department of the Navy
The Assistant Chief of Staff, Intelligence,
Department of the Air Force

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July 1988

Key Judgments

We believe that Vietnam—at least for the next few years—intends to concentrate on domestic reform and pursue a diplomacy that is generally more conciliatory and principally focused on expanding and diversifying its economic ties. While Hanoi is unlikely to forswear military posturing entirely, we believe Vietnam is moving toward a new security framework in its own Indochina backyard that is much less dependent on military domination.

The economy has been reduced to virtual paralysis, spawning widespread deprivation and a deep-seated malaise that has infected all levels of the society. General Secretary Nguyen Van Linh has instituted a broadbased program of domestic reforms not unlike Gorbachev's *perestroika* and *glasnost* policies—so far to little effect. The overall situation has actually deteriorated over the past two years.

We believe several factors militate against a rapid economic turnaround for Vietnam:

- A weak economic infrastructure, including a limited capacity to absorb foreign aid or investment.
- An inability, thus far, to implement effectively its reform initiatives.
- An inability to expand agricultural production much beyond present levels.

Linh and other senior officials concede that reforms will not have any discernible impact for at least four or five years. Although improvements in some sectors are possible in the short term, we find Linh's prognosis to be optimistic.

A far less likely prospect, in our view, is the early stabilization of the current economic chaos, followed by a period of sustained growth fueled by large infusions of international aid. While Japan, France, and others have expressed interest in an international consortium, at least several years of efforts focused on infrastructure development would be necessary to stimulate real growth.

We also do not rule out the possibility of widespread popular agitation and rioting should the living standards of most Vietnamese continue to decline. While the security apparatus probably could contain such outbursts, the unrest could engender a serious backlash by conservative leaders against the reform program and its proponents.

The new leadership increasingly has also come to view the conflict in Cambodia as a costly and counterproductive venture that is militarily unwinnable. Although Hanoi probably does not expect substantial savings from a military pullback from Cambodia, particularly early on, it does believe that the conflict in Cambodia distracts attention and resources from urgent domestic problems, and blocks meaningful access to the Western and Japanese aid, trade, investment, and technology it needs to forge an economic recovery and development strategy.¹

Despite the deep hostility in Vietnam's relationship with China, there appears to be grounds for, and some signs of movement toward, an eventual accommodation with Beijing. Hanoi's pledge to withdraw from Cambodia—when met—will resolve a central point of contention with China. Vietnamese officials seem resigned, nonetheless, to the probability that Beijing will dictate a relatively slow pace toward full normalization. However, disputes over the Spratly Islands could derail even these modest efforts.

We see little reason to suspect that Soviet influence in Vietnam will decline over the near term. Moscow will remain Hanoi's main aid donor, and we have no evidence that the Soviets are prepared to take drastic steps, such as cutting aid to force Vietnamese compliance on issues of Soviet concern. Nevertheless, occasional tensions will arise, particularly over aid and Sino-Soviet relations, and residual nervousness exists in Hanoi that Moscow could sell Vietnam's interests short in favor of improved relations with Beijing.

We judge that Vietnam's break with the past in its domestic and foreign policies has important implications for the United States. If, as expected, diplomatic momentum on Cambodia continues to gather, there will be increasing pressure in the near term from the Association of Southeast

¹ *INR basically agrees with the analysis of Vietnam's economic and domestic political condition, but we believe that this Estimate overstates the linkage between Hanoi's economic straits and flexibility in its Indochina policy. Vietnam's security policy never envisioned indefinite military occupation of Cambodia and Laos, but rather, the emplacement of pliant regimes in both these countries. Hanoi's recent willingness to revise its approach to a Cambodian settlement, in our judgment, represents a tactical response, rather than a major strategic shift, as implied in the main text. INR believes Hanoi's leaders have decided to step up withdrawals and possibly facilitate the settlement process—even at some risk—partly in response to domestic problems and Soviet urgings, but also for what they judge are positive factors and opportunities: the balance of power in Cambodia rests with Vietnam and the People's Republic of Kampuchea, Sihanouk is clearly anxious to return to Phnom Penh, the non-Communist resistance is weak, and there have been signs of softness in the consensus of the Association of Southeast Asian Nations. We believe that Hanoi is very unlikely to accept a negotiated settlement in Cambodia that seriously compromises its Phnom Penh clients or risks a major Khmer Rouge resurgence.*

Asian Nations and others for a more direct and prominent US involvement in resolving the issue. Even Hanoi and Moscow have expressed support for greater US participation in achieving and guaranteeing an accord. Given the large number of competing interests, there are risks that the United States may at times be pulled in opposing directions by friendly, as well as by adversarial parties. The complex maneuvering of Cambodia's Prince Sihanouk, in particular, appears to hold such potential, as does the resolution of the Khmer Rouge role in a settlement.

Vietnam is also likely to press for rapid normalization of relations with the United States after Vietnamese troops are withdrawn from Cambodia. Although Hanoi views improving relations as an important component of its overall strategy for emerging from its isolation, it probably holds out little hope for major US Government aid. Hanoi will, however, attempt to exploit any diplomatic headway on Cambodia to pressure Washington to drop its opposition to international aid, trade, and investment.

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Vietnam and Its ASEAN Neighbors

Malaysia Association of Southeast Asian Nations (ASEAN)

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Discussion

Prospects for Reform

The Economy: An Empty Basketcase

Vietnam is facing a systemic crisis similar to that in many Communist countries. Factors of its own making—bureaucratic and ideological rigidity, misguided policies, and leadership shortcomings, as well as decades of war and periodic natural disasters—have reduced the economy to virtual paralysis. This in turn has spawned a deep-seated malaise that has infected all levels of the society (see inset) [redacted]

Vietnam is one of the world's poorest nations:

- It has a per capita income of less than \$200 per year.
- It has had greater than a 1,000-percent rate of inflation at several points over the past three years.
- Over 1 million people enter the work force annually, with less than half finding full-time jobs.
- Malnutrition is common in the northern and central provinces. [redacted]

The agricultural sector, the economy's success story in the early 1980s, has recently fallen on hard times. Productivity is held down by shortages of insecticides, fertilizers, and farm machinery. The government also faces difficulties in the collection and distribution of farm products. Grain production—which rose from 12 million to 18 million tons between 1979 and 1985—has leveled off, and insect damage in 1987 caused production to fall short of target for the third straight year. Hanoi pointed to a decline in per capita grain production as one of the key failures of the economy in 1987. This trend is especially worrisome to the leadership, because the population—currently about 65 million—is expanding 2.5 percent per year, and may approach 90 million by the year 2000 [redacted]

Hanoi's statistics acknowledge that growth in industrial output has also slipped in recent years. Industries are operating at about 50 percent of capacity and suffer from shortages of raw materials, spare parts,

Vietnam's Desperate Condition: Assessing Blame

Nguyen Van Linh's indictment of Vietnam's economy strikes particularly hard at his predecessors' failed policies and highlights the psychological factors created by the party's paternalistic approach over the years. The so-called "subjective factors" he cites as most critical to Vietnam's plight are:

- *Misplaced emphasis on development of heavy industry in the late 1970s.*
- *Inefficient circulation and distribution of raw materials and goods.*
- *Mistakes in implementing price, wage, and monetary reforms in late 1985.*
- *A bloated and inefficient government bureaucracy.*
- *Widespread corruption and criminal behavior.*

In addition to problems of its own making, a number of external "objective factors" have compounded Vietnam's difficulties:

- *Four decades of war.*
- *Chinese hostility.*
- *Economic isolation from much of the world.*
- *A backward and small economy that limits the base for expansion.*
- *An overly rapid population growth in relation to economic development.* [redacted]

and fuels. Transportation bottlenecks, inappropriate pricing policies, and a lack of managerial skills also hamper production [redacted]

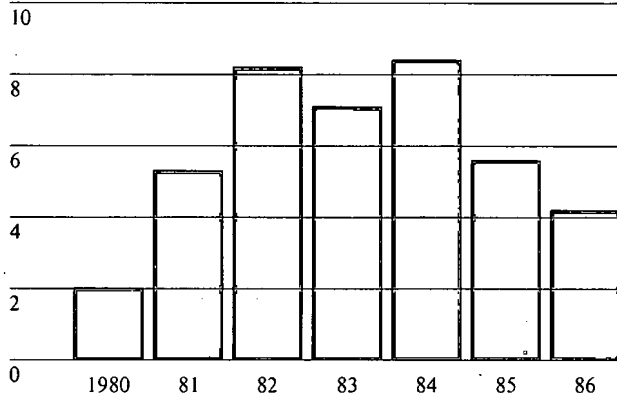
Vietnam does not have the domestic capital, the foreign exchange, or the creditworthiness to make needed investment in agriculture and to import

Vietnam: Selected Economic Indicators

Note scale change

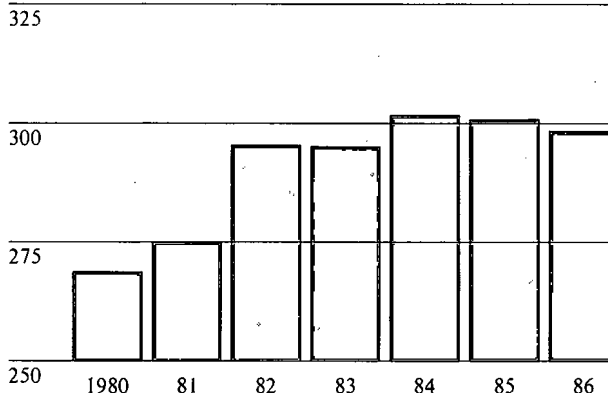
Real GDP Growth Rates, 1980-86

Percent



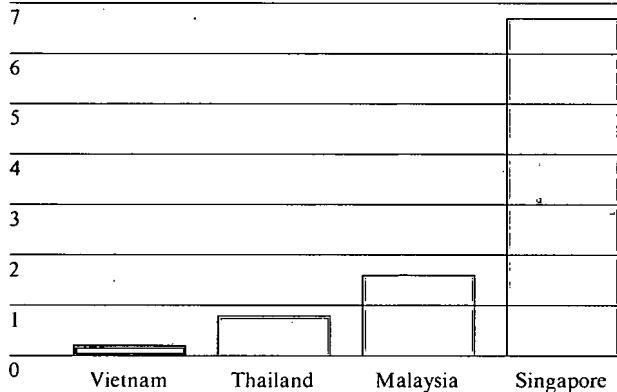
Per Capita Grain Output, 1980-86

Kilograms



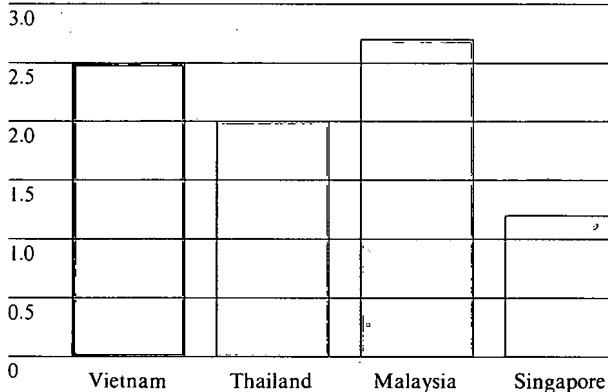
Selected Countries: Per Capita Income, 1986

Thousand US \$



Selected Countries: Average Annual Population Growth, 1981-86

Percent



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equipment and spare parts to upgrade the country's antiquated factories. Hard currency reserves stand at only about \$10 million, or about three days' worth of imports. Moreover, with exports largely limited to agricultural products and handicraft items, Vietnam's ability to generate foreign exchange is poor. Prospects for acquiring hard currency from exports is limited by obligations to the Soviet Union—roughly 70 percent of Vietnamese exports is used for debt servicing.²

The Economic Restructuring Program

General Secretary Nguyen Van Linh has conducted an incessant and highly personalized "jawboning" campaign stressing the urgency of a thorough "renovation" in Vietnamese behavior and thinking—particularly in economic matters. Beginning with the Sixth Party Congress in December 1986, he has attempted to address many of the problems afflicting Vietnam's economy and prescribed remedies that mark major departures from earlier policies (see annex, "Vietnamese Economic Reform: Just What the Doctor Ordered?"). The political report of the Congress underscored the primacy of economic imperatives in Vietnam's national priorities and stressed that—contrary to past leadership concerns for "balance"—existing conditions called for effective economic measures even at the expense of ideological orthodoxy. Major economic themes addressed by the Congress included:

- *Private trade.* Some controls on private commerce would be loosened. At the same time, state enterprises would be pressed to outperform the private sector.
- *Socialization of southern Vietnam.* Socialization would be pushed only when it could be expected to lead to increased production.
- *Accumulation of wealth.* Private citizens would have the right to become wealthy as long as they rendered useful and legal services and fulfilled their obligations. Small private enterprises were encouraged.

² The Soviet Union provided Vietnam approximately \$1.9 billion in economic aid last year—an amount second only to its aid to Cuba. For the last five years, Vietnam has been the largest recipient of Soviet military aid in the Third World, receiving about \$1.8 billion in 1987.



Nguyen Van Linh

- *Open door policy.* Foreign investment would be encouraged, with particular attention paid to attracting investment in high-technology areas.
- *Economic development priorities.* Production of food, consumer goods, and exports was assigned top priority.

The overhaul that Linh envisions calls for decentralizing Vietnam's system of economic decision making. This depends on removing the party and government as much as possible from their present micromanagement of economic affairs and on allowing this responsibility to devolve to local and enterprise levels. Phasing out large-scale subsidies and basing economic decisions on market forces are also required. (S NF)

By all accounts—Vietnamese included—the reform program has had little practical impact thus far. In a review of the first year of his reform program at a plenum of the Central Committee in December 1987, Linh acknowledged the general failure of reforms to that point, admitting that life for the average Vietnamese remained fraught with difficulties and instability:

- Productivity, quality control, and efficiency remained low.

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- Income was distributed in irrational and inequitable ways.
- Little capital accumulation was occurring.
- Business generally operated at a loss.
- Huge government deficits persisted.
- Many artificial and harmful controls on commerce remained in place.

Linh also pointed to the slowness by state and local enterprises to adapt to accounting based on business principles, and their continuing heavy reliance on central direction and state subsidies. []

Glasnost Vietnamese Style: An Impossible Dream?

Along with his economic restructuring program, Linh wants to streamline the party and government workforce. He eventually plans to trim the bloated and stagnant government bureaucracy by up to 25 percent. A countrywide campaign has been launched to improve the quality of party cadres and to purge corrupt, insensitive, and inflexible members. []

Linh has moved to stem the general social malaise that has been induced by Vietnam's prolonged economic siege by encouraging greater openness and communication among the party, government, and the populace. His own version of *glasnost* has featured a vigorous attack on inefficient and corrupt party and government cadres. Throughout most of 1987, Linh penned a series of articles entitled "Things That Must be Done Immediately" that exposed a variety of corrupt officials and practices, and demanded early and decisive corrective measures. []

Linh has also introduced greater "democracy" into Vietnam's polity, encouraging popular debate on major domestic issues (sensitive foreign policy issues like Cambodia, however, remain above popular debate) and calling on the press in particular to be more assertive in molding and reflecting public opinion. These limited democratic impulses were also manifested in the April 1987 National Assembly elections, which featured multiple candidacies for many of the seats at stake. []

It is in the area of atmospherics that reforms have had the most visible and practical impact. Foreign visitors report considerably more openness in the society as a result of the easing or removal of various government

restrictions on everyday activities, especially those connected to commerce. Similar openness is apparent in the greatly increased accessibility to foreign visitors of senior Vietnamese officials anxious to cultivate a more attractive international image. []

Reform: Much Talk, Little Movement

Despite the uncertainties and long leadtime involved in reform efforts, Linh contends that past policy failures and the rapid pace of world technological advances leave Vietnam no alternative but to pursue bold new initiatives. Under the rubric of "renovation," Linh has been attempting to halt the disastrous slide in Vietnam's economy and to achieve a measure of stability over the next few years that, he hopes, can serve as a base for subsequent recovery and development. []

On the issue of reform, all top leaders pay lipservice, but with varying degrees of enthusiasm. The recently elected Premier, Do Muoi, for example, promotes reform but tempers his support by emphasizing the need for order and stability in the process. Defense Minister Le Duc Anh, meanwhile, emphasizes that the reform process must take account of the unique needs of the military. Of the three old guard leaders who stepped down at the Sixth Party Congress, only Le Duc Tho appears to have any continuing impact, although the extent of his influence is not clear. Tho accords great importance to ideological purity, and clearly is not an enthusiastic backer of sweeping reform. []

The most active proponents of reform, along with Nguyen Van Linh, are President Vo Chi Cong, Vice Premier Vo Van Kiet, and Foreign Minister Nguyen Co Thach. The present lapse in reform momentum

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stems not only from the outright opposition that Linh acknowledges persists at various levels, but also from confusion and wrangling over what the next steps should be. Linh has stated that Vietnam must feel its way on various measures, discarding those that do not work. []

Linh's real challenge is to mobilize a skeptical and often recalcitrant bureaucracy and populace to accept and implement sweeping changes. Many bureaucrats and party cadres not only are inherently conservative, but also stand to lose valued influence and monetary benefits under genuine reform programs. Linh also faces formidable obstacles in trying to ignite support for his programs among a generally cynical and dispirited populace that has seen numerous past promises of a better day go unfulfilled. In the absence of early and visible benefits accruing from reform—which Linh himself acknowledges are not likely—popular support, at best, will remain lukewarm and could erode. []

This inertia and opposition is compounded by the shortage of trained and skilled technocrats available to implement the complex renovation program Linh is pushing. Moreover, Vietnam's archaic economic infrastructure frustrates truly innovative reforms. Transportation facilities are in deplorable condition, domestic and international telecommunications are outmoded, and the banking system is incapable of handling the growing demands for investment and cash flow. []

How Will Hanoi Fare?

More of the Same. Various foreign observers have noted that although the Vietnamese leadership speaks the language of *perestroika* and *glasnost*, it is not moving to implement reforms; Vietnamese economists question whether the leadership is willing to take the necessary steps to solve the country's problems. Linh and other senior officials concede that reforms will not have any discernible impact for at least four or five years. Although improvements in some sectors are possible in the short term, we find Linh's prognosis to be optimistic. Vietnam's limited capacity to absorb foreign aid or investment, its inability thus far to effectively implement its reform initiatives, its inability to expand agricultural productivity

appreciably, and its weak economic infrastructure all militate against a rapid turnaround. Instead, it argues for more of the same (see inset). []

If Linh's Reforms Are Derailed. While the forces for fundamental change in Vietnam's domestic and foreign policy orientation are powerful, there are countervailing influences that could disrupt or derail the process. On the domestic side, Nguyen Van Linh's tenure could be abbreviated by natural (he is 72 years old) or political factors. He has openly acknowledged that differences exist among the leadership on certain parts of his reform package, and failure to demonstrate improvements could undermine his personal standing and slow or stall the reform effort. Linh's position could also be undermined by social unrest. Linh's credibility, as well as that of his reform program, also rests in part on the legitimacy Gorbachev bestows. If the Soviet leader is discredited, Vietnam's reform impetus would sustain a serious, though not fatal setback. We believe that, in light of the demonstrable failure of more orthodox Marxist economics, any near term shifts in economic policy will be within the broad context of reform rather than involving open repudiation of it. []

A Brighter Future. A far less likely prospect, in our view, is for an early stabilization of the current economic chaos, followed by a period of sustained growth fueled by large infusions of international aid. While Japan, France, and others have expressed interest in an international consortium to restore and develop the economies of Vietnam, Laos, and Cambodia, at least several years of efforts focused on infrastructure development would be necessary to stimulate real growth. []

Alternatively, A Worse Case. We do not rule out the possibility of widespread popular agitation and rioting should the living standards of most Vietnamese continue to decline. Popular opinion toward the party and government is at an alltime low, and the Vietnamese press has reported serious increases in social disorder, especially in Ho Chi Minh City. Government initiatives perceived by the populace as unwarranted or heavyhanded could spark serious confrontations. While the security apparatus could probably contain such outbursts, they could engender a serious backlash against reform. []

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What's Wrong? A Firsthand View

[redacted]
[redacted] Among the
group's key observations were:

- *The growth rate of the economy is stagnant or, at best, only slightly upward, but is probably declining on a per capita basis.*
- *Agricultural production is failing to keep pace with population growth and is nearing the limits of what can be achieved under existing land use programs. Capital-intensive irrigation is needed to increase production beyond current levels.*
- *Vietnamese economists seem unrealistic and incapable of dealing with problems, and the statistical base for planning is woefully inadequate.*
- *Reforms are basically passive—a series of deregulation programs—and even those are widely sabotaged by self-interested bureaucrats.*
- *Corruption is pervasive. While it is required in order to accomplish anything under existing circumstances, it constitutes an inherent obstacle to reform.*
- *Decentralization essentially has replaced a set of central regulations with multiple sets of local ones, creating confusion and inaction.*

[redacted]
[redacted] reforms to that
point—even if successfully implemented—
would allow the economy to rise only modestly.
Programs to stimulate economic activity
through investment, technology, trade, and in-
centives represent the real challenge, but appear
years off [redacted]

The Implications of Reform

Declare Victory in Cambodia and Come Home

We believe General Secretary Linh recognizes that, without retrenchment from the overextended and confrontational foreign policy of the past decade, political and economic reform cannot succeed. The new leadership increasingly has come to view the conflict in Cambodia as a costly and counterproductive venture that is militarily unwinnable. Although Hanoi probably does not expect substantial savings from a military pullout from Cambodia, particularly early on, it does believe that the conflict in Cambodia distracts attention and resources from urgent domestic problems, and blocks meaningful access to the Western and Japanese aid, trade, investment, and technology it needs to forge an economic recovery and development strategy. Under Linh, Hanoi's previous obsession with military strength and control of an Indochina bloc has been subsumed into a broadened national security calculus predicated more heavily on international cooperation and requiring a deemphasis of military means. [redacted]

While it is still too early to conclude that such changes are permanent, we believe that, at least for the next few years, Vietnam intends to pursue a generally more conciliatory diplomacy, principally focused on expanding and diversifying its economic ties. Although Hanoi is not likely to entirely forswear military posturing, we believe that it will sharply retrench on the use or threat of military force. [redacted]

Indochina: Toward a New Framework

In its own Indochina backyard, Hanoi is moving toward a new security framework that is much less dependent on military domination. While the basic concept of Indochina "solidarity" that rests on the existence of cooperative regimes in Cambodia and Laos as buffers remains unchanged, Hanoi is moving toward a more restrained—and probably riskier—application of that concept as it aspires to a post-1990 era of regional stability and economic development (see inset on page 7). [redacted]

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1990: Transition to a New Era?

Vietnamese Communists have long valued the symbolism of dates in setting national goals. In this regard, the year 1990 shapes up as a crucial one in the new leadership's ambitious program to enter a new era of stability and economic growth. A Politburo resolution issued in January 1988 ordered that preparations begin for commemorating several significant anniversaries in 1990:

- *The 60th anniversary of the Indochinese Communist Party.*
- *The 100th anniversary of Ho Chi Minh's birthdate.*
- *The 45th National Day of Vietnam.*
- *The 15th anniversary of "total victory" over the United States.*
- *The 120th anniversary of Lenin's birth.*

quite low. Hanoi's overriding concerns will lie in enhancing its international standing and moving toward rapprochement with China. However, Hanoi would react quickly and firmly—but probably still short of large-scale military intervention—if it perceived that China were using the Laotian and Cambodian regimes to undermine Vietnam's interests. Beyond these concerns Hanoi will rely principally on more subtle political and economic means to maintain its equities in Indochina, building, for example, on the multiplicity of trilateral and interprovincial relationships that have been developed among the three countries in recent years

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China: No Way To Go But Up

Although Cambodia is Vietnam's most immediate and pressing foreign policy issue, historical antagonist China stands as the most imposing long-term reality with which it must cope. Since 1975, Beijing has sought to prevent Vietnam from becoming a rival power center in Southeast Asia by obstructing Hanoi's efforts to develop a cohesive Indochina security bloc. China has employed a three-part strategy against Vietnam, consisting of political and economic isolation; direct, but generally small-scale military pressure that, since 1984, has focused on a small and remote Vietnamese border salient; and political and military support to the Cambodian resistance.

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Though undertaken primarily because of economic imperatives, Hanoi's pledge to withdraw from Cambodia—when met—will resolve a central point of contention with China. Hanoi has already achieved some headway in mending fences with China by encouraging Laos to normalize its relations with Beijing, a process that produced agreement to restore ambassadorial-level ties. Moreover, Hanoi's withdrawal of more than half its troops from Laos since late 1987 was intended in part to demonstrate to Beijing that Vietnam is serious about military retrenchment in Indochina and reducing tensions with China.

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Hanoi will not intentionally leave itself dangerously exposed as it retrenches from its forward posture in Indochina. At a minimum, it will expect both Vientiane and Phnom Penh to refrain from actions or policies that are inimical to Vietnam's security. Once Vietnam has withdrawn most or all of its troops from Cambodia and Laos, the potential for subsequent reintervention on a large scale, in our view, will be

While the terms of a Cambodian settlement are, on balance, likely to favor Vietnam more than China, Beijing's objective of denying Hanoi consolidated

control over Indochina has already been largely achieved. We believe Beijing can tolerate a residual Vietnamese influence in Cambodia and Laos as long as Hanoi is discreet and refrains from efforts to parlay such influence into a regional bloc. []

Despite its relatively limited leverage over the ultimate form of a Cambodia settlement, China holds the trump cards concerning the stable security environment that Hanoi seeks in order to refocus its main energies on economic development. Hanoi recognizes that it will have to pursue the initiative in restoring some measure of mutual trust in the battered relationship, with a Cambodia settlement removing the most important—but by no means only—impediment. Despite the deep hostility in the relationship, there appears to be grounds for, and some signs of movement toward, an eventual accommodation. Vietnamese officials seem resigned, nonetheless, to the probability that Beijing will dictate a relatively slow pace toward full normalization. []

Beijing's pronounced new assertiveness toward the Spratly Islands underscores its intention to keep Hanoi on the defensive even as the latter assumes a less confrontational strategy in regional affairs. Apart from its immediate interest in enforcing and consolidating its own claims to the islands, China's heightened posture serves to sustain pressure on Hanoi to acknowledge that China is not merely an outside intruder, but an integral player in Southeast Asian affairs. The forceful stand in the Spratlys also compensates, in part, for the prospective loss of leverage over Vietnam that China faces in the event of a Cambodia settlement. We doubt, however, that Beijing will attempt to comingle the Spratlys dispute directly with the Cambodia issue because of the sensitivities of the Association of Southeast Asian Nations (ASEAN) countries that also have claims in the islands. Nor does the Spratlys issue appear likely to figure prominently in the Sino-Soviet calculus. Moscow, to Hanoi's apparent chagrin and annoyance, has avoided any reaction that would prompt Beijing to turn the issue into a fourth "obstacle" to normalization by refraining from condemning China's actions there. []

The Soviet Union: Prodding for Change

Soviet-Vietnamese relations are likely to remain solid over the next several years. Hanoi frequently underscores the continuing centrality of the Soviet role in Vietnam's internal and foreign policy development and orientation. There is little reason to suspect that Soviet influence, or the Soviet military presence at Cam Ranh, will decline over the near term. Nevertheless, occasional tensions will arise, particularly over aid and Sino-Soviet relations. []

Although the Soviets show no signs of backing away from their role as Hanoi's principal aid donor, Moscow has sent strong signals to Hanoi on the necessity for domestic reform and the efficient use of Soviet economic and military aid. The Soviets have informed Hanoi that they do not want Vietnam to be a long-term drain on Soviet resources, and reportedly are claiming a higher percentage of Vietnamese exports—they already take 70 percent—in repayment for aid. They also apparently have responded slowly and reluctantly to recent Vietnamese requests for food aid, blaming the shortages on a poor internal distribution system. []

The Soviets also have encouraged Hanoi to seek political solutions to regional conflicts. Gorbachev has stressed to the Vietnamese his interest in resolving the Cambodian conflict, both to improve relations with China and to reduce the cost of Soviet military assistance to Vietnam. Similarly, Moscow urged Vietnamese restraint during clashes in the Spratlys this spring. We have no evidence that the Soviets have taken drastic steps, such as reducing aid, to try to force Hanoi to seek a settlement in Cambodia, and Moscow is likely to let the Vietnamese set the pace of the search for a solution, at least until 1990. Nevertheless, residual nervousness exists in Hanoi that Moscow could sell Hanoi's interests short in favor of improved Sino-Soviet relations. []

A Cambodian settlement would reap positive benefits not only for Hanoi, but for Moscow as well. Gorbachev will try to capitalize on a settlement to advance the prospects for normalizing relations with China

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and to increase Soviet entree into a more productive web of relations—especially economic—with the ASEAN countries. Regional perceptions of a less threatening Soviet Union could also alter attitudes toward Great Power involvement in the region on such issues as the Philippine bases and nuclear free zones in ways unfavorable to the United States. []

Hanoi: Can It Break Out of Its Economic Isolation?

Hanoi has made headway over the past year or two in eroding what was once a fairly solid international consensus on restricting economic contacts with Vietnam until it withdrew its forces from Cambodia. Complementing its efforts to improve the diplomatic environment surrounding Cambodia has been a vigorous campaign to portray to prospective international clients opportunities for ground floor entry into promising new markets in Vietnam. []

Hanoi has entertained a steady stream of prospective business clients from Japan, South Korea, and Western Europe, and dispatched one of its top technocrats—Harvard-educated economist Nguyen Xuan Oanh, a former South Vietnamese official known to Americans as “Jack Owen”—on a tour of ASEAN and Japan in late 1987 to stimulate business interest in Vietnam. The National Assembly, following lengthy delays, passed a new foreign investment code in December that is among the most liberal for a Communist country. []

The most telling effect of these initiatives has been on ASEAN, which has spearheaded the economic restrictions on Vietnam since 1979. In the year since ASEAN lodged a demarche in Tokyo protesting the rapid growth in Japanese trade with Vietnam, business interests in ASEAN itself have succumbed increasingly to a “herd mentality” out of concern for keeping pace with competitors in staking out opportunities in Vietnam. Indonesia, for example, has increased both government and private economic contacts in recent months. []

Hanoi appears intent on improving its political and economic relations with ASEAN and its individual members. While occasional Vietnamese talk of joining ASEAN is unlikely to materialize, we believe Hanoi sees major potential in trade with its members. []

Thailand stands to benefit most from a withdrawal from Cambodia and any diminution of the Vietnamese military threat. While the Thai will remain suspicious of Hanoi, especially regarding potential Vietnamese support for internal subversion in Thailand, Bangkok probably could move relatively fast in developing closer relations. Thailand's present close relations with China would complicate, but not block, parallel pursuit of improved ties to Hanoi. []

Indonesia and Malaysia would also welcome the emergence of a less menacing Vietnam. Both see utility in a stable and inwardly focused Vietnam as a counterweight to the more fundamental threat they believe China poses. We estimate both countries would move quickly to strengthen political and economic ties to Hanoi following a Cambodian accord. []

Ironically, while ASEAN could claim high marks for sustaining a policy that contributed heavily to a Vietnamese turnabout, the very resolution of the Cambodia issue could deprive the group of one of its most compelling unifying influences. On the other hand, the benefits inherent in more conciliatory and cooperative Vietnamese behavior would probably be viewed by most of its members as a more than adequate tradeoff. []

Implications for the United States

We judge that a continuing evolution in Vietnam's strategic outlook along present lines has important implications across a broad spectrum for US policy in the next few years. The most immediate question it raises is the nature and extent of a US role in a Cambodian settlement and its aftermath. ASEAN and others are increasing pressure for more direct and prominent US involvement in resolving the issue. Even Hanoi and Moscow have expressed support for greater US participation in achieving and guaranteeing an accord. These pressures will grow if, as expected, diplomatic momentum continues to gather in the near term. Given the large number of competing interests involved in the equation, there are risks that

the United States may at times be pulled in opposing directions by friendly as well as adversarial parties. Sihanouk's complex maneuvering, in particular, appears to hold such potential, as does the resolution of the Khmer Rouge role in a settlement. []

Vietnam is likely to press for rapid normalization of relations with Washington after Vietnamese troops are withdrawn from Cambodia. Hanoi views improving relations as an important component of its overall strategy for emerging from its isolation. Hanoi is already moving on several fronts to improve Washington-Hanoi relations. Progress has been made on arranging emigration to the United States under the Orderly Departure Program and on the early movement of Amerasian children. In addition, Hanoi early this year announced the release of all but a few of the senior military and civilian officials of the former South Vietnamese Government held in reeducation camps, and recently agreed on a program that would allow them to emigrate to the United States. []

On the most crucial issue—resolving the status of missing US servicemen—the pace of recovery efforts has also begun to pick up following the visit in August 1987 of a US delegation headed by presidential emissary Gen. John Vessey, Jr. Contradictory impulses in Vietnam's policy community and efforts to manipulate American opinion on the POW-MIA issue, however, are likely to make for uneven progress. Moreover, in the final analysis—because of such factors as the circumstances of loss and the passage of time—many missing US personnel will never be accounted for, regardless of the level of cooperation by the Indochinese governments. []

[] This could sour improving relations and impede progress toward normalization. []

In any event, Hanoi probably holds out little hope for major US Government aid that would complement the nongovernment humanitarian assistance already provided. But, we anticipate Hanoi will attempt to exploit any diplomatic headway on Cambodia to

pressure Washington to drop its opposition to international aid, trade, and investment. Hanoi is also anxious to add the participation of technologically superior US companies—and, where possible, the technology itself—in stimulating Vietnam's economic development. Particularly promising, in Hanoi's eyes, are potential involvement by US firms in Vietnam's nascent oil exploration program, and investment in Vietnam by the large overseas Vietnamese community. []

Hanoi will try to gain US cooperation in constraining Chinese hostility toward Vietnam, especially with regard to Cambodia issues. Hanoi's foreign policy orientation will remain heavily influenced by the Soviets, but increasingly flexible as it cultivates broadened international contacts. We can expect Hanoi to lend strong support to the ASEAN-proposed and Soviet-backed Southeast Asia Nuclear Weapons Free Zone. []

A Cambodian accord would also change the complexion of the Indochina refugee problem in important ways and alleviate a major source of pressure on Bangkok and US-Thai relations—it probably would allow substantial numbers of the more than 250,000 Khmer refugees in Thailand to return to Cambodia. A general lowering of Thai-Vietnamese tensions might also facilitate the return of significant numbers of Laotian refugees from Thailand as well. The exodus of Vietnamese refugees by boat is a more complex problem, the resolution of which depends in part on improvements in economic conditions in Vietnam, which are unlikely in the near term. Nevertheless, a Cambodian settlement would remove a major barrier to more systematic efforts to address the refugee problem in all its dimensions. []

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Annex

Vietnamese Economic Reform: Just What the Doctor Ordered?

Plenums of the Central Committee were convened in April and August 1987 to flesh out and add impetus to the reforms validated by the Sixth Congress. The Second Plenum in April focused on "circulation and distribution," addressing the chronic imbalances among prices, money supply, and wages, and on the restrictions on movement of goods and supplies throughout the economy. Linh cited this problem as the focal point of the country's economic difficulties, describing its resolution as the "socioeconomic and psychological precondition" for real reform. Specific issues addressed included:

- Tax relief, setting of realistic prices for state-supplied materials, and guaranteed profits for farmers.
- State-run enterprises would gain a more rational pricing system for raw materials, salary increases for workers, and new authority to raise capital from private sources.
- Discrimination against private traders would end, and they would receive price and tax incentives for investing in "priority areas."
- The state bureaucracy would be "drastically streamlined" and state workers would receive only gradual, rather than immediate, salary increases due to budgetary constraints.
- A government decree abolishing checkpoints other than those necessary to maintain security was strongly endorsed.
- Restrictions on investments and contributions by overseas Vietnamese were eased []

The Third Plenum, held in August 1987, called for reducing the government's role in economic management and for greater autonomy for state-run enterprises, which in turn were called on to shift to "socialist business and accounting" based on market forces by 1990 []

The government would be streamlined and reorganized in accordance with a new charter that confined its role to formulating development strategies, managing long-term projects, developing annual and

long-term plans, budget planning, and creating favorable conditions for economic development in general. []

A government decree issued in November 1987, known as Decision 217, outlined the expanded autonomy—and corresponding responsibility for profits and losses—for state-run enterprises. The decree:

- Mandates supply and distribution of goods through contractual arrangements instead of by state fiat.
- Authorizes sales of shares in order to acquire capital.
- Reduces the number of goods with state-set prices.
- Sets minimum wages for workers, but no limits on individual income.
- Eliminates state-guaranteed permanent employment.
- Enlarges authority for local enterprises to engage in direct dealings with foreign countries, and allows them to retain most of the profits on exports in excess of those mandated by the state plan. (C NF)

The Politburo issued a resolution in April 1988 addressing the country's critical agricultural situation. The resolution called for a reorganization of the agricultural sector focused on greater specialization, improved use of technology, and increased integration of agriculture with other key economic sectors such as transportation and communications. Along with efforts to intensify rice production, development of secondary crops is planned in order to achieve a rapid boost in overall food production. Greater investment in irrigation projects and in research is planned, and an agricultural bank is to be established to assist farmers. Industrial production of farm equipment and implements is to be increased, minimizing reliance on imported equipment []

The resolution also encouraged farmers to improve their land by allowing them to retain agricultural plots for up to 15 years (the previous limit was five

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years). Family enterprises are to be expanded and private farmers are granted additional legal protection. Peasants are allowed to leave state-run cooperatives—the cornerstone of Vietnam's agricultural system for over 30 years—to engage in private farming. Finally, large cooperatives, as well as individual families, are permitted to sell excess production on the open market at negotiated rates.

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